

TRANSCRIPT

STANDING COMMITTEE ON THE ECONOMY AND INFRASTRUCTURE

Inquiry into VicForests operations

Melbourne — 9 August 2017

Members

Mr Bernie Finn — Chair

Mr Khalil Eideh — Deputy Chair

Mr Jeff Bourman

Mr Mark Gepp

Ms Colleen Hartland

Mr Shaun Leane

Mr Craig Ondarchie

Mr Luke O'Sullivan

Participating members

Mr Greg Barber

Ms Samantha Dunn

Mr Cesar Melhem

Mr Gordon Rich-Phillips

Witness

Mr Tim Johnston, Chief Executive Officer, Victorian Association of Forest Industries.

The CHAIR — I welcome members of the public and our friends of the fourth estate, if any have joined us this evening. The committee is hearing evidence tonight in relation to the inquiry into VicForests operations, and the evidence is being recorded. To you, Mr Johnston, welcome, and thank you very much for your time. All evidence taken at this hearing is protected by parliamentary privilege; therefore you are protected against any action for what you say here today. But if you go outside and repeat the same things, those comments may not be protected by this privilege. If you would be kind enough to perhaps make an opening statement of 5 or maybe 10 minutes, and then we will open it up to questions.

Mr JOHNSTON — Good evening. I am Tim Johnston. I am the chief executive of the Victorian Association of Forest Industries, also known by the acronym VAFI. VAFI represents the entire life cycle of forest and wood products from forest growers, harvest and haul businesses through to wood and paper processors, and associated businesses across both the native forest and plantation sectors. The forest, fibre and wood products industry is a vital industry for the state and for regional Victoria in particular. It is a major driver of economic activity and jobs in Victoria generating \$7 billion in sales and service income annually. Much of the income generated by the industry remains in local communities, particularly so in rural and regional Victoria. Directly employing more than 21 000 workers, the industry indirectly supports another 40 000 to 50 000 jobs, providing a sustainable future for suburban, rural and regional communities across Victoria.

VAFI strives to protect and promote the forest industry's commitment to Victoria's economy and community, as well as its ongoing sustainability. VAFI works collaboratively with its members, industry stakeholders, the community and governments to achieve this goal. Our vision is to ensure an economically, environmentally and socially sustainable future for the Victorian forest, fibre and wood products industry.

In respect of the committee's terms of reference I make the following comments. On term of reference (a), which spoke to compliance with VicForests utilisation standards, whilst VicForests on the whole do a very good job, there are always some opportunities for improvement in relation to log grading and log presentation. My comment to that would be that I would urge VicForests to continue to work closely with their contracting staff and their customers to match as closely as possible the resource to the mill capacity.

In relation to term of reference (b), economic and environmental loss, this is an operational matter for VicForests, with no further comment from VAFI.

In relation to term of reference (c), alternatives to the current utilisation standards, VAFI's position is that resource should be utilised for its greatest value whilst also acknowledging that there are contractual, logistic and other constraints that directly impact on this. Nonetheless we think there is an opportunity in relation to forest thinnings that would allow for better forest management as this would help tree growth as well as producing wood fibre for pulp log.

In relation to term of reference (d), VicForests modelling scenarios, in general terms it appears that VicForests modelling is fairly accurate, as noted in the recent VEAC report. There is always room for improvement. This could be assisted by aligning modelling with additional on-ground verification of resource availability and quality subject to their own resource constraints. In particular it would be helpful if the statewide forest resource inventory was updated to reflect current conditions.

With regard to modelling scenarios, there are key uncertainties around the occurrence of major bushfires and new exclusion zones around threatened species. VAFI believes the current species-by-species approach is not a sustainable approach as this has a significant and unpredictable impact on resource supply to industry. In the short term VAFI supports the increased and urgent improvement of data modelling and monitoring on the distribution of threatened species, which we believe would help reduce uncertainty in resource projection. We also think there is an opportunity to take a more landscape-wide approach to the assessment of threatened species rather than the current ad hoc situation.

In relation to term of reference (e), VicForests business practices, VAFI members include a number of VicForests customers and therefore is not involved in any individual discussions on business practices. In general terms, I understand VAFI's members have robust commercial discussions with VicForests regarding any disputes and complaints. VAFI would seek and expect of VicForests, as with any organisation, that businesses are treated fairly, respectfully and in good faith and that all existing contracts are honoured. From VAFI's perspective VicForests customers and the industry more broadly need long-term security of supply in order to invest in the growth of their businesses.

Thank you for allowing me to make those opening comments. In conclusion, we have a strong and sustainable integrated forest fibre and wood products industry in our state — an industry that is product driven across both native forest and plantations. Timber harvesting in Victoria works because it is highly regulated, highly restricted and is based on sustainable forest management that takes into account the environmental, social, cultural and economic values of the resource. It is a sector that will continue to thrive if given the opportunity to operate under stable and secure policy settings.

The CHAIR — Thank you, Mr Johnston. I just have one question, and that is: what happens to the industry if government policy continues as it currently is, if we continue to have, as you say, species protected and logging coupes closed down and a general drift in that direction?

Mr JOHNSTON — There will be continuing pressure on the industry to be economically viable to survive. The challenges are great, and part of the challenge for the industry at the moment is that the time has come to make investments in the next generation of machinery and capital and that sort of stuff, and it is very difficult to make those business decisions in an environment where the future is so clouded. So certainly from VAFI's point of view we will not support any further reduction in the resource that is available to industry. We would actually like to see more resource available to industry over the long term.

The CHAIR — Do you think we will see more government involvement, as per the Heyfield situation?

Mr JOHNSTON — I could not make a comment either one way or the other. Governments make decisions. My view is we have a really good industry. That industry has the opportunity to thrive. We are living in a time that the demand for the product is only growing, so we have the opportunity here in Victoria to meet that demand for customers locally, interstate and internationally — or we will lose industry and we will lose jobs, particularly in regional Victoria.

Mr ONDARCHIE — Tim, thanks for coming in tonight. I have got a few questions for you, but I should start by recognising, as you have, the significant economic value that your industry has to Victoria, particularly rural and regional Victoria. We should never forget that. There is a premise for our discussion tonight. I will take you to item c. of the committee's reference. What is VAFI's view about the 200-metre radius SPZ?

Mr JOHNSTON — The prescription in relation to the 200-metre buffer zone — the Leadbeater's possum — was a result of the Leadbeater's Possum Advisory Group, which my predecessor at VAFI was intrinsically involved in. As best I understand, that decision was made at the time on what was pretty — there was not a lot of evidence as to what was available, and what we have seen in recent times is that the possum is being found in places that it was not expected to be found and indeed has been found in numbers that it was probably not being expected to be found in. So my view in relation to the buffer zone or any sort of prescription is that prescriptions need to be flexible to reflect the latest evidence that we have in relation to threatened species.

Mr ONDARCHIE — Is there a compromise to be had that supports both the need of the species and the economic viability of the industry?

Mr JOHNSTON — I absolutely think there is some sort of landing ground. I think the situation exists, that 200 metres — just draw a circle — is a pretty crude way of doing it. There are some pretty smart forest planners who can identify better ways to do it, and I would urge that they be given the opportunity to investigate that.

Mr ONDARCHIE — The industry must be pretty happy because if things are going bad, they have got a fallback now: the government is going to buy their business.

Mr JOHNSTON — I am not going to comment on the government's decision in relation to that sort of stuff.

Mr ONDARCHIE — But the industry are chatting, though, Tim. They are chatting. I have heard them chatting. You have heard them chatting. How much did the government pay for Heyfield?

Mr JOHNSTON — I have only seen what is reported in the papers.

Mr LEANE — Come on!

Mr ONDARCHIE — It is a legitimate question. It goes to the future of the industry. Has there been any discussion across the industry about the sort of terms of that arrangement and what that means for the ongoing viability of ASH?

Mr JOHNSTON — The industry is very keen to see what the terms and conditions are and what that means for the broader industry.

Mr ONDARCHIE — And have you heard anything about an exit strategy, maybe, or is the government going to hold this forever?

Mr JOHNSTON — No.

Mr ONDARCHIE — So there has been no consultation or discussion with the industry from government or from the department about what the broader term plan is for supporting your members, who may be in crisis?

Mr JOHNSTON — First of all, I would not say any of our members are in crisis.

Mr ONDARCHIE — No, but they are talking to me.

Mr JOHNSTON — Yes. I am waiting to hear. I must admit I am just back from four weeks annual leave, so —

Mr ONDARCHIE — Who gets four weeks annual leave?

Mr JOHNSTON — I have never had four weeks in the past. Yes, we look forward as VAFI, as a member association but the industry more broadly, to see what the future holds for the mill at Heyfield.

Mr ONDARCHIE — Just finally, are you on behalf of your members or are any of your members seeking government funding or support for any of their projects?

Mr JOHNSTON — Not that I am aware of directly. Having said that, I know businesses across this industry but across a number of industries talk regularly to government around investment opportunities. So that is not to say one of my members might have an idea about some future investment that they might want to talk to the government about, but I am not aware of any current proposals.

Mr ONDARCHIE — Are government consulting with you about their longer term strategy for the industry?

Mr JOHNSTON — I have been in consultation with various elements within the government. Obviously I speak regularly with VicForests. I speak regularly with departments. There are ongoing discussions, and I continue to do those. I speak to ministers and shadow ministers.

Mr GEPP — Thanks, Mr Johnston, for being here tonight and for your opening remarks. I was interested when you were taking us through your opening remarks that you particularly referred, in relation to the first term of reference, to the opportunity for improvement of grading and presentation of logs. Can you just take me through that a little bit and explain that? I have got a very basic understanding, but —

Mr JOHNSTON — Yes. So first of all, I am not a log grader, and it is a discipline that I hear about. So, as I said, the advice or the feedback that I get from my members is that on the whole things are pretty good. That does not stop that on the odd occasion a log will present that a member might not be happy about, and they will have a discussion with VicForests in relation to that and say, ‘I wasn’t happy with that log’, or whatever. That is the extent of the concerns I am getting raised in relation to that.

Now, obviously I did point out some of the mills have preferred specifications in relation to log length and the way their mill is set up, and again that is a commercial conversation that VicForests have with the customer to make sure that, to the greatest extent possible and knowing that you are dealing with a natural product, that that product gets to the mill gate or the mill door in a form that best suits the mill operation.

Mr GEPP — If a log presents, it is possible for different sections of the log to be graded at different specifications, is it not?

Mr JOHNSTON — Yes, as far as I am aware.

Mr GEPP — For example, if this chunk of the log was graded D and this bit B, what is the overall grading of that particular log? Is there any impact of those gradings as to the suitability of the use of that log?

Mr JOHNSTON — That is a level of log grading detail that is beyond me.

Mr GEPP — All right. Okay. Can I just talk about the Australian forestry standard and the Forest Stewardship Council certification for a moment; I am not sure how much you know.

Mr JOHNSTON — FSC.

Mr GEPP — Yes. Are there any market opportunities for Victorian timber products that are created by sustainability assessments such as the AFS and FSC certification?

Mr JOHNSTON — First of all, in relation to certification, VAFI's view is we support certification. We do not have a preference for either scheme, but we think certification is —

Mr GEPP — Is one simpler to obtain than another?

Mr JOHNSTON — I think they are two different schemes, and so they have different focuses. I know there are some operations that are certified to both, some are certified to one or the other, and that becomes a commercial decision. I would say that my feedback is that businesses have told me they do not see any financial benefit in their product going into the market from having the certification.

Mr GEPP — And does the industry have a preference, do you think, of one over the other?

Mr JOHNSTON — No, it is horses for courses. As I said, some prefer AFS, some prefer FSC, some do both. It is up to the individual business to make that decision around what they want to do in relation to certification.

Mr GEPP — Just a final one from me, Chair, in relation to VAFI's view about the current sustainability of Victoria's harvest of native forests. Can you just take us through what that view is?

Mr JOHNSTON — My view is that the industry is not in a position to get too much smaller without having substantial ramifications for its ability to operate, its ability to attract and retain staff and its ability to provide the products that it currently does.

Mr GEPP — When you say not 'too much smaller', can it get smaller, or do you think it has reached its —

Mr JOHNSTON — Yes. I would actually argue that this is about as low as we can go. You know, having said all that, the businesses are very clever and smart at trying to find better ways to do things, to get better value out of a resource, do smarter things and all that sort of stuff, but there reaches a point where the scale becomes too challenging to make those future investments, and that is ultimately where the industry wants to go and ideally needs to go, to make those changes. So I would not be advocating for any less resource being made available to industry.

Ms DUNN — Thank you, Mr Johnston, for your presentation this evening. I just wanted to go first to your membership of VAFI in terms of that our little blurb here talks about you representing the life cycle. How many members does VAFI have?

Mr JOHNSTON — Twenty-eight.

Ms DUNN — I am wondering of those members you have, would ASH be one of those members?

Mr JOHNSTON — ASH is not currently a member of VAFI.

Ms DUNN — Of your current membership would any of those members be in competition with ASH? Where I am going with that is if the government owns Australian Sustainable Hardwood, is it likely that they may be in competition with your members?

Mr JOHNSTON — Yes. A number of —

Ms DUNN — A number of your members?

Mr JOHNSTON — Yes. We have a number of hardwood sawmills that are customers of VicForests, and therefore, yes, they would be in competition.

Ms DUNN — So would those members be, I guess, on the smaller scale of those hardwood mills that are dotted throughout Victoria?

Mr JOHNSTON — A range of mill sizes, from very small through to what I would call mid-sized. Obviously we would love to see them all a lot bigger.

Ms DUNN — I wanted to just touch on FSC a little bit, because Mr Gepp brought that up in terms of those two certification schemes. It is my understanding that the FSC bar, if you like, or benchmark is more complex in terms of the range of things it assesses as part of gaining certification, looking at triple bottom line. Is that your understanding of FSC, that it just deals with a greater complexity of issues?

Mr JOHNSTON — I would not necessarily say that AFS does not deal with complex issues. I think FSC probably has a focus more aligned to the environment — sorry, a stronger focus in that space. But both certification schemes are robust. AFS is signed off by Standards Australia, the standards authority.

Ms DUNN — Does VAFI have any views as to why VicForests has had trouble gaining FSC certification?

Mr JOHNSTON — No.

Ms DUNN — So you do not have any views on that?

Mr JOHNSTON — No. Well, I understand they are looking to do that at some time and some point, and we will deal with that when it occurs.

Ms DUNN — Okay, no problem. In terms of VAFI, it is my understanding that back in 2013 you worked with VicForests to facilitate some industry consultation as part of the timber sales process, and it is also my understanding that that happened as a way to mitigate negative lobbying identified, because at that time there was knowledge that there would be a reduction of ash resources. So I am just wondering whether you did do that industry consultation work with VicForests in relation to that?

Mr JOHNSTON — I joined VAFI at the start of 2014, so that predates my employment at the —

Ms DUNN — Your term?

Mr JOHNSTON — Yes.

Ms DUNN — No problem. In terms of industry knowledge, VicForests has certainly produced information for industry that there was going to be a reduction of ash resources. So it was not a secret, that in fact the ash was reducing in level. I am wondering: do you have any views as to why industry has not adapted to those planned changes in sawlog availability, and particularly keeping in mind Heyfield, who of course have wanted more and more and more.

Mr JOHNSTON — My comment would be that industry has been adapting. We have seen over time, in recent years, a number of mills either reduce or exit the industry. So I would say industry has been responding to that.

Ms DUNN — Are you aware, in terms of those mills who have had to exit the industry and close down, of whether they closed down and those contracts for wood supply that they had just disappeared into the ether or did those wood contracts get picked up by other mills as a resource for them?

Mr JOHNSTON — To the best of my knowledge their contract expired.

Ms DUNN — They were at the end of their contract, so it was just time to shut the doors?

Mr JOHNSTON — Yes.

Ms DUNN — So you did not see bigger players sort of swallowing smaller mills if you like?

Mr JOHNSTON — Not in the last three and a bit years, no.

Ms DUNN — You may not be able to answer this one, although it may well be in the corporate history of VAFI, so I will give it a go. There was a briefing given to the Treasurer in 2013 — I recognise that is before your tenure. At that time that briefing included some commentary around VAFI supporting relaxing certain aspects of export restrictions of timber. I am just wondering if you have any knowledge of why there was that change and why VAFI did support relaxing those export restrictions.

Mr JOHNSTON — I cannot talk to 2013.

Ms DUNN — That is fair enough.

Mr JOHNSTON — What I would say is that probably a more developed view came about in VAFI over time — that if there were the opportunity to what I call balance the industry, which would be assisted through some export of logs, then that would be a reasonable step.

Ms DUNN — Was there any tension around that, because essentially you have got a resource going offshore that could have been supplied to a local mill? Were there any tensions that you were aware of, particularly in your membership?

Mr JOHNSTON — No, and our position is, and will continue to be until I am told otherwise, that to the greatest extent possible a resource should be at least offered locally, and if it is not taken up locally, well then the sale is to whoever, but if it is not being —

Ms DUNN — So first dibs locally?

Mr JOHNSTON — Ideally that would be our position.

Ms DUNN — You talked about demand growing for the product. I am just wondering what that is based on, because I know that I have seen evidence that in fact there is the lowest amount of hardwood in dwellings that there has been. I think we are down to 1 cubic metre of hardwood in dwellings now because of consumer preference to go to other types of construction timber. I am just wondering with that demand where you are getting those figures from?

Mr JOHNSTON — The demand is not only in construction timber but also in finishing timbers, in linings, in cabinetry, in flooring and in a whole host of products.

Mr BOURMAN — Being towards the end means all the juicy questions are taken, but —

Ms DUNN — Sorry, Mr Bourman.

Mr BOURMAN — I will let you off, but this time only! Thanks for turning up here today, Tim.

Mr JOHNSTON — No worries.

Mr BOURMAN — You mentioned earlier on that the current species-by-species approach to environmental protection is not really working. Does VAFI have an opinion on a better arrangement that gives both the amount of wood needed to keep the industry sustainable and some environmental protection as needed?

Mr JOHNSTON — Our view is that we should be assessing our forest resource for timber supply and for conservation values across the whole forest, and that is what we refer to in the industry as being tenure blind. Species and fires do not recognise a boundary we draw on a map that says, 'That's production forest and that's national park or reserve or whatever'. So we need to be assessing the whole landscape rather than just doing it on a coupe-by-coupe basis, because I would argue that by doing that you end up with a patchwork at best that certainly impacts negatively on industry but probably does not support the broader conservation concerns.

Mr BOURMAN — I do not know that maybe having national parks available for logging would go down so well, but I certainly understand what you are saying.

Mr JOHNSTON — No, but I am saying that we need to certainly assess our parks and reserves estate for threatened species.

Mr BOURMAN — Right. Yes, and I guess we are still awaiting a report on the threatened species outside of the logging zones. You said earlier the industry cannot take much more, and I am referring to the reduction in the amount of timber. How much of the industry is starting to transition to plantation where it is appropriate?

Mr JOHNSTON — There are no mills that are sort of transferring across, if that is the question you are asking.

Mr BOURMAN — I get it. First of all, I appreciate that it is not something you do over a weekend. It might be 15 to 30 years. Are people planning to move out?

Mr JOHNSTON — I know some mills have looked at different resource profiles, but at the end of the day if you have got a mill set up to saw hardwood, you are going to saw hardwood. You cannot, as you say, change that overnight. From VAFI's point of view we certainly support more plantation establishment, because we think that will increase the basket of fibre more broadly available to industry to produce products, but you do not sort of tend to transition from one to the other.

Mr BOURMAN — No, I would certainly think not in the short term. That obviously brings us to the point where if the amount available to log now is shrinking, and let us assume everyone plants a plantation tomorrow and we have got 30 to 50 years or whatever it might be before it starts becoming usable, what do you think the government — the royal 'government — can do to help keep the industry going in the meantime? The way I see it is that either we are going to have enough wood to keep it going from the state forests and things like that or we are going to have nothing.

Mr JOHNSTON — Certainly government, and that is both state and local government, can assist in relation to further plantation establishment. We encourage all levels of government to do that in relation to planning provisions and that sort of stuff, and we look forward to seeing that happen in the future. But I come back to that earlier point that the current industry is not in a position to transfer overnight.

I would also add that whilst plantation establishment is good, you need to understand that there are a number of different types of plantations that get established, and there are what are called short-rotation plantations. That is sort of 10, 12 or 15 years, and that tends to be pulp log which is chipped and exported. There is what I call a mid-range, which is nominally 30 years, which is a pine plantation, which you would be familiar with. We are yet to see any long-term evidence in relation to long-term hardwood sawlog. There is a bit out there, but it is not something you would put your house on at the moment. I would add that should anyone go out tomorrow and establish a plantation for hardwood sawlog when it is mature, which would be in close to 80 years time, it is not going to look like a plantation. It will look like a natural forest.

Mr O'SULLIVAN — Thank you, Mr Johnston, for coming in tonight. I just want to ask a couple of questions, and I want to go to something that you said in your presentation in relation to the data and modelling in relation to the current industry. I think that was also one of the recommendations that came out of the Leadbeater's report. At the moment do you think there is a deficiency in that, which is really leading to some of the issues that we are dealing with now?

Mr JOHNSTON — I think that, like anything in an environment where the data is thin or the data does not exist, it is pretty hard to make strong and long-lasting decisions. So we would certainly support additional data collection, further data collection about forest health, threatened species and all that sort of stuff, knowing full well that there is a cost to that. That is a cost that would have to be borne by the community at large.

Mr O'SULLIVAN — In terms of the current scenario that we have there are a whole range of people out there who are talking about this fictional great forest national park, in terms of this being the saviour of the Leadbeater's possum. Where I am a bit confused in this whole debate is that on one hand we have got a whole range of people saying that we must have this great national park to save the possums, and yet on the other hand when we actually do some meaningful survey work in relation to the possum, we find out there is a whole lot

more there than what we actually first thought. And most of the survey work is actually done within the coupes themselves, let alone the 98 per cent that are not in the coupes. Do you think there is a real opportunity here, with some sensible sort of policy frameworks put in place, that there can be a coexistence between the Leadbeater's possum and a sustainable timber industry?

Mr JOHNSTON — I am absolutely convinced we can do that, but it requires good, solid data that assesses the entire forest landscape, and that it does not just focus on a very small area and ignore what the rest of the landscape is doing in relation to threatened species. I would also add that I think we are seeing that species, threatened or otherwise, are far more adaptable than what some of the current thinking is, and thinking will continue to develop and it is important that that thinking is allowed to develop, but it can only be based on further analysis, data collection and monitoring.

Mr O'SULLIVAN — Just one further one, Chair. Just to take up the plantation issue a little bit further, because one of the arguments that we keep hearing is we can close down the timber industry in terms of using native timbers and shift the whole industry across to plantation, can you actually give us sort of a run-down as to why that is really impractical from an industry point of view?

Mr JOHNSTON — It is impractical from the point of view that at the end of the day the consumer wants a range of products — and that is why we do what we do; we produce a product that goes to market. So they are looking for both hardwood and softwood, and that hardwood comes from native forests. In relation to chip, it comes from a blue gum plantation but also pine from a pine plantation. So our view is that if we are to have a resilient industry, that is an industry that has a variety of fibre sources — that is, hardwood, softwood, native and plantation — that will add to, one, its ability to serve a very broad market of products but also give it the resilience that should challenges come elsewhere in the supply chain, there is the opportunity to address that. So for us it is not either-or; we need both.

Mr LEANE — Thanks for helping us in our reference. You mentioned a number of times during your answers to questions that your members have got a commitment around the industry being environmentally sustainable. We talk a lot on this committee about the Leadbeater's possum, but I want to go there again. It is on the critically endangered list, and I take into account some of your commentary around it, but I imagine your members would be very supportive of that coming off that list one day and surviving as a species.

Mr JOHNSTON — Absolutely, ultimately, and that is why at VAFI my predecessor was directly involved in the Leadbeater's Possum Advisory Group. That is why industry got involved in that. Our view is we want an economically, environmentally and socially sustainable industry, so we will do whatever we can to make that happen in the long-term.

The CHAIR — Mr Johnston, thank you very much for coming in this evening. We do appreciate it. You will receive a transcript in the next week or so — if you could check that for any typographical errors. We very much appreciate you being with us tonight.

Mr JOHNSTON — Thank you.

Witness withdrew.